

**UNITED STATES INTERNATIONAL TRADE COMMISSION**

***TAPERED ROLLER BEARINGS FROM CHINA***  
**INV. NO. 731-TA-344 (THIRD REVIEW)**

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**TESTIMONY OF JAMES W. GRIFFITH**  
**President and Chief Executive Officer**  
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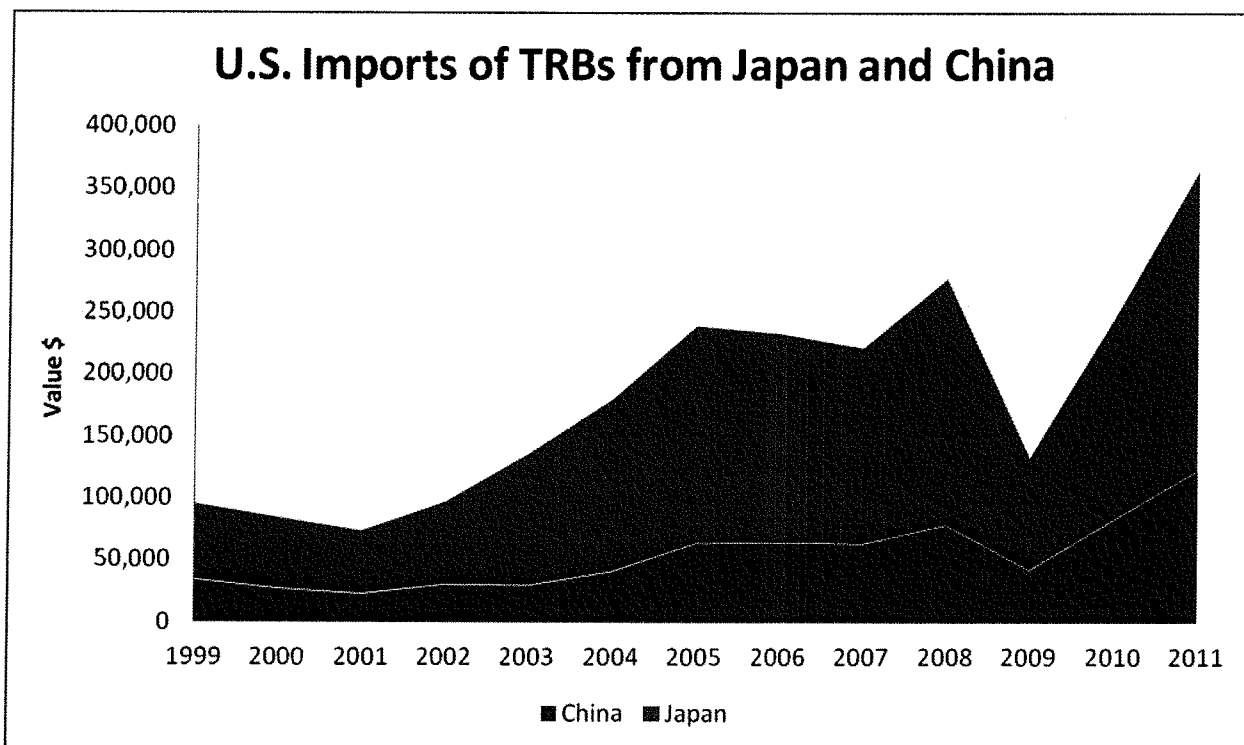
**Good morning. I am Jim Griffith, president and chief executive officer of The Timken Company. In 2006, I told you that revocation of the antidumping order on imports of tapered roller bearings from China was the most serious challenge to the survival of the U.S. tapered roller bearing industry. That is even more the case today.**

**As the Commission is aware, Timken is a major producer of tapered roller bearings in the United States. Our company's founder, Henry Timken, invented the tapered roller bearing in 1898 as a solution to a critical problem – reducing friction in order to improve productivity. Indeed, the specific problem concerned the ability of heavy freight wagons to make sharp turns. Tapered roller bearings were able to handle both radial (that is, weight) and thrust (or cornering force) loads, allowing the wagons to move more smoothly, corner better, and require reduced repair and replacement. The same can be said for the TRBs, including TRB wheel hub assemblies, which are used in hundreds of different applications for many different industries today.**

**Demand for tapered roller bearings is derived from demand for the end use markets into which they are sold. The Public Prehearing Report (page II-5) depicts the huge dip in GDP growth in 2009 from the deep recession of late 2008-2009. While the recovery started**

**in 2010, in many sectors of our economy recovery continues to be slow. As our producer questionnaire response shows, Timken experienced sharp declines in production, shipments and sales of tapered roller bearings in 2009. While things have improved since then, several important factors such as production, shipments (by quantity) and employment have yet to return to pre-recession levels. As the Public Prehearing Report notes (page II-5), U.S. demand for TRBs apparently decreased between 2006 and 2011. We have had serious problems with aggressive pricing and large imports from Japan following revocation of the TRB Japan order in 2000. In fact, exports from Japan have increased 400 percent in the time since the order was revoked. Timken's decision to avoid the losses associated with matching those prices led to a direct reduction in our sales and production of over \$600 million in the U.S. market in the past three years. The potential problems from China absent the existing order dwarf our concerns with Japan.**

**As the Commission has often recognized, ours is a capital intensive industry. That means that our competitors are willing to sell their product at dumped prices to maintain high levels of capacity utilization. That is precisely why efforts to ensure fair trade have been so important to our company for so many years. Depressed prices that flow from dumped import competition force us to choose between cutting prices to meet that competition or cede market share, because, in the end, price is what drives our customers' buying decisions. According to the Public Prehearing Report (page II-8), all but two purchasers indicated that price was a very important factor in making their purchases.**



Even with the order on TRBs from China in place, the lack of an order on imports from Japan the last dozen years coupled with very aggressive pricing by Japanese competitors in the U.S. tapered roller bearing market has resulted in Timken losing large volumes of TRB business. This is particularly true in the automotive sector as pricing levels on many products, including wheel hub units, have been for years below levels at which our company, and we believe any company, can make an adequate return on invested capital. Our experience in the TRB wheel hub portion of the TRB market, which is reflected in our questionnaire response, reflects unsustainable pricing by our competitors in the segment. Timken has closed plants, laid off workers, and reduced capital

**expenditures and investments in R&D in the last dozen years, just as we predicted would likely occur.<sup>1</sup>**

**With the huge capacity in China and the export orientation of their producers and the multinationals with facilities in China, I can tell you with certainty that revocation of the order on TRBs from China will create an even greater contraction of the U.S. TRB manufacturing base.**

**Let me explain to you why Chinese imports are such a dire threat to the well-being of the domestic industry. First, as reflected in the Public Prehearing Report (pages IV-14 and -15), exports from China to all markets are up more than 200 percent by value since 2006. The volume of TRBs exported by Chinese companies to the world in 2011 is a multiple of Timken's total U.S. TRB production in 2011. In the last review, Chinese respondents confirmed that there were at least 63 Chinese producers of tapered roller bearings. Today, there are more than 200, as we show with a list of Chinese TRB producers, including pages from their websites, in our questionnaire responses. The Chinese bearing industry itself has confirmed that the industry experienced substantial growth during the period of review. Specifically, that industry's 12<sup>th</sup> Five-Year Development Plan reported that overall Chinese bearing production increased 150 percent between 2006 and 2010, and we know that tapered roller bearings had been singled out as one of the country's "key products for development" in the prior plan. The Public**

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<sup>1</sup> See *Certain Bearings From China, France, Germany, Hungary, Italy, Japan, Romania, Singapore, Sweden and the United Kingdom*, Inv. Nos. AA1921-143, 731-TA-341, 731-TA-343-345, 731-TA-391-397, and 731-TA-399 (R), Hearing Transcript (March 21, 2000) at 35 (Mr. Griffith).

**Prehearing Report (page II-3) also confirms that capacity and production in China increased between 2006 and 2011.**

**Second, the quality of Chinese tapered roller bearings has also improved significantly. We know this from our operations in China, where we compete directly with these producers and have seen the improvement in the performance of their products. We also believe there are numerous Chinese producers that have been and are increasingly supplying OEM purchasers as well as aftermarket distributors here in the United States. For example, Chinese TRBs have already captured a significant part of the market for truck trailer wheel bearings. Finally, nearly every major U.S. purchaser of TRBs has facilities in China and can work with the Chinese operations of multinational companies and with Chinese TRB companies to qualify their product.**

**This leads me to my third point. The Chinese tapered roller bearing industry consists of several types of producers. The first are companies that are operated by multinational bearing companies. They are all world-class producers of tapered roller bearings, with the technology, know-how and resources needed to meet the exacting demands of customers in all end-use markets in which tapered roller bearings are used. These companies have invested hundreds of millions of dollars in their Chinese tapered roller bearing operations during the period of review, many of which are detailed in our questionnaire response. We know from our sales activities in third markets that these companies' Chinese operations are underselling us in those markets. Removal of the order would bring the same problem of underselling by our competitors' Chinese operations to**

**the U.S. market. These companies all have long-established relationships with distributors and OEM purchasers in the U.S. and with their foreign operations in China.**

**A second type of Chinese producer is a company that is either owned by or benefits from the Chinese government. Their primary incentive for doing business has been, is, and, I believe, will continue to be keeping Chinese workers employed. Indeed, these companies are an excellent example of what *The Economist* magazine earlier this year covered in a report entitled “The Visible Hand,” which dealt with the rise of state capitalism in countries such as China. As that report states, (quote) “[S]tate capitalism is the most formidable foe that liberal capitalism has faced so far. . . . How can you ensure a fair trading system if some companies enjoy the support, overt or covert, of a national government?” (Unquote.) While there are also independent companies in China, the heavy government involvement in major inputs and in various sectors of the market create artificial distortions in their cost structures and perceived “competitiveness”.**

**Fourth, China’s tapered roller bearing industry is slated to expand very substantially in the foreseeable future, by 87 percent by 2015. (The 12<sup>th</sup> Five-Year Plan.) But Chinese producers face a serious problem – slowing demand in both their home market and key export markets, including, in particular, Europe. Absent the order, Chinese producers would quickly shift their shipments to the U.S. market, with its large customer base, well-established channels of distribution, and open access. Even with the order in place, we are seeing a shift in volumes to the U.S. from the EU in the first few months of 2012, as can be seen from Chinese export statistics.**

**Such a surge in imports would jeopardize Timken's U.S. tapered roller bearing operations across the board. In particular, our facilities producing high-volume, smaller sized bearings would be among the first to be impacted by those dumped imports. In our questionnaire response, we identified and analyzed the catalogs and product offerings of 54 Chinese producers subject to the order. The part numbers listed in those catalogs that are identical to part numbers produced at just four of Timken's high-volume facilities amounted to about 70 percent of the volume of the part numbers produced in these facilities, potentially putting at risk several hundred million dollars of U.S. production, the closure of several plants and the loss of thousands of jobs.**

**Nor would the harm be limited to these particular facilities. It would also impact our facilities producing rail bearings. At least three of the multinational bearing producers have facilities in China producing railroad bearings, and, insofar as we are aware, at least two of them have received quality assurance certifications from the Association of American Railroads, which means their railroad bearings meet the quality standards for the U.S. railroad bearing market.**

**Indeed, given the multinationals' operations in China and their well-established presence in the U.S., there is no product that Timken produces that would be safe from harm caused by dumped import competition. We know some of the multinationals have Chinese facilities producing larger sized TRBs aimed at what we refer to as process**

**industries, including wind energy. With the slowdown in demand in China for wind energy, there is substantial excess capacity in facilities in China.**

**(Pause)**

**In closing, I want to make it very clear that the order has had significant beneficial effects for Timken and, we believe, the rest of the domestic industry. Absent the order, there can be little doubt that Chinese imports would be much, much larger today. Timken also believes that, although there has been continuous dumping throughout the period of review, the order has also imposed some discipline on prices, making it possible for us to operate in a market that has at least some semblance of fair pricing.**

**Revocation of the order would lead to a significant increase in imports from China, at prices significantly below prevailing U.S. prices, with a catastrophic result for the U.S. TRB industry. Plants will close; thousands of jobs will be lost. U.S. producers will have a much smaller share of the domestic market as market prices will be unsustainable for market economy producers like Timken. For the sake of our industry and our workers, we ask that this Commission make an affirmative determination and keep the order in effect.**

**Thank you.**